

Minneapolis Community Development Agency

Request for City Council Action

Date: December 16, 2003

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Lee Sheehy, CPED Director
Chuck Lutz, CPED Deputy Director _____

Subject: Authorizing the Execution and Delivery of a Joint Powers Agreement Between the City of Minneapolis, County of Hennepin and the Hennepin County Housing and Redevelopment Authority to Expand the Availability of the Common Bond Fund to Hennepin County Manufacturing Companies; and Authorizing the Execution and Delivery of a Moral Obligation Agreement Between the City of Minneapolis and Hennepin County.

Previous Directives: MCDA Board of Commissioners on April 18, 2003 recommended authorizing negotiation of an agreement with Hennepin County to assist businesses by providing long-term financing through the Common Bond Fund.

Ward: The existing Common Bond Fund Revenue Bond Program is a city-wide program. The partnership with Hennepin County would expand it county-wide to assist manufacturing companies.

Neighborhood Group Notification: N.A.

Consistency with *Building a City That Works*: The expansion of the Common Bond Fund throughout Hennepin County is consistent with Goal 1 of increasing the city's economic competitiveness; Goal 5 of participating in partnerships to achieve common community development objectives; and Goal 6 of managing existing financial resources effectively and identify new sources of revenue to carry out our mission.

Comprehensive Plan Compliance: N.A.

Zoning Code Compliance: N.A.

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): Additional administrative fees will be generated to support the small business financing activities of the city.

Living Wage/Business Subsidy: N.A.

Job Linkage: N.A.

Affirmative Action Compliance: N.A.

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council authorize the execution and delivery of a Joint Powers Agreement between the City of Minneapolis, County of Hennepin and the Hennepin County Housing and Redevelopment Authority expanding the availability of the Common Bond Fund to Hennepin County. It is further recommended that the City Council authorize the execution and delivery of the Moral Obligation Agreement between the City of Minneapolis and Hennepin County to define the reimbursement to the City for any losses caused by borrowers under the Joint Powers Agreement.

The City of Minneapolis is seeking to expand the availability of the Common Bond Fund (CBF) to manufacturing companies located throughout Hennepin County. The CBF has been in existence since 1982, and has been used to finance a wide variety of projects throughout the City of Minneapolis. Many of the major manufacturing and industrial projects completed in Minneapolis have been financed with tax-exempt and taxable revenue bonds issued through the CBF. Over this almost 22 year history, the CBF has grown and matured into one of only six pooled bond programs in the country with an "A-" or better bond rating by Standard & Poor's. Use of the "A-" investment grade rating of the CBF to finance various business activities provides fixed rate, long-term funding as an incentive to businesses to remain and to locate in Hennepin County. The CBF is designed for established owner-occupied manufacturing facilities with a history of profitability and whose owners provide personal guaranties.

Loans within the CBF are made based on a project-by-project basis, and backed by several layers of security. All assets acquired using the CBF are signed over to the CBF and leased back to the borrower. This system assures ready access to the asset should control and/or liquidation needs to be exercised by the CBF. Each borrower deposits sufficient funds with the CBF to cover the annual debt service for that specific project. The CBF maintains a substantial reserve that could be drawn upon if the liquidation value and annual debt service reserve are not sufficient. A Letter of Credit and a Public Pledge have never been drawn against. Typical underwriting criteria include:

- Owner-occupied facilities;
- Established businesses (no start-ups);
- History of profitability;
- Personal guaranties from owners;
- Minimum requirement of 10 percent of value from borrower;

- Debt service reserve of 10 percent of bond;
- Payment and performance bond on construction projects; and
- Contractor approval.

The CBF would be available to provide long-term fixed-rate financing to businesses at below market interest rates. The combination of a fixed low-interest rate, longer term and small equity requirements all contribute to offering the manufacturing business a very attractive financing package. Interest rate on CBF loans is fixed over the life of the loan and is significantly lower than what is available commercially, saving interest charges for the borrower. The fixed term provides certainty not available with variable rate financing. The CBF offers ten year financing on production equipment and up to 25 years on new facility construction. These are much longer terms than available commercially, increasing security for the borrower and eliminating the time and costs of seeking new financing.

Key provisions of the Joint Powers Agreement include:

1. The existing structure of the CBF remains with staff of the Authority and County added as part of the team to identify and review projects from Hennepin County for inclusion in the CBF;
2. Both taxable and tax-exempt revenue bonds will be available as is the case now;
3. The County will execute a Moral Obligation Agreement to the City that spells out the procedures and circumstances when the County would need to reimburse the City for any losses caused by borrowers under the Joint Powers Agreement; and
4. There will be a joint sharing of the administrative fees generated by the issuance of revenue bonds for projects under the Joint Powers Agreement.

Approving the execution and delivery of a Moral Obligation Agreement with Hennepin County and a Joint Powers Agreement with Hennepin County and the Hennepin County Housing and Redevelopment Authority relating to the Common Bond Fund Program

WHEREAS, pursuant to the authority of 2003 Minnesota Laws, Chapter 127, Article 12, Sections 31-34, and as contemplated by Chapter 415 of the Minneapolis Code of Ordinances, and pursuant to an Assignment and Assumption Agreement, dated as of January 1, 2004, between the City and the Minneapolis Community Development Agency (the "Assignment and Assumption Agreement"), the Agency will assign to the City and the City will accept and assume, the assets, rights and obligations of the Agency related to the Common Bond Fund Program; and

WHEREAS, pursuant to a Joint Powers Agreement between the City, Hennepin County and the Hennepin County Housing and Redevelopment Authority (the "Joint Powers Agreement"), the City will derive the authority to issue Common Fund Bonds (as defined in the Assignment and Assumption Agreement) throughout Hennepin County; and

WHEREAS, pursuant to a Moral Obligation Agreement between the City and Hennepin County (the "Moral Obligation Agreement"), the County is expected (subject to budgetary appropriation) to reimburse the City for losses caused by borrowers on Common Fund Bonds issued pursuant to the Joint Powers Agreement;

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Minneapolis:

That the City approves the Moral Obligation Agreement and Joint Powers Agreement in substantially the form on file with CPED staff on the date of adoption hereof.

That the Mayor, Finance Officer and City Clerk (or their deputies) are hereby authorized to execute and deliver the Moral Obligation Agreement and Joint Powers Agreement, in substantially the form on file with CPED staff on the date hereof, but with any changes therein as are acceptable to the Finance Officer, conclusively evidenced by the execution and delivery thereof.